

Broad-Based Growth: The Caribbean Experience



NITA THACKER
WESTERN HEMISPHERE
DEPARTMENT
INTERNATIONAL MONETARY
FUND

Outline



- **Caribbean: Some stylized facts**
- **Broad Based Growth: Caribbean Experience**
- **Policies for broad based growth in the Caribbean**

Caribbean: stylized facts



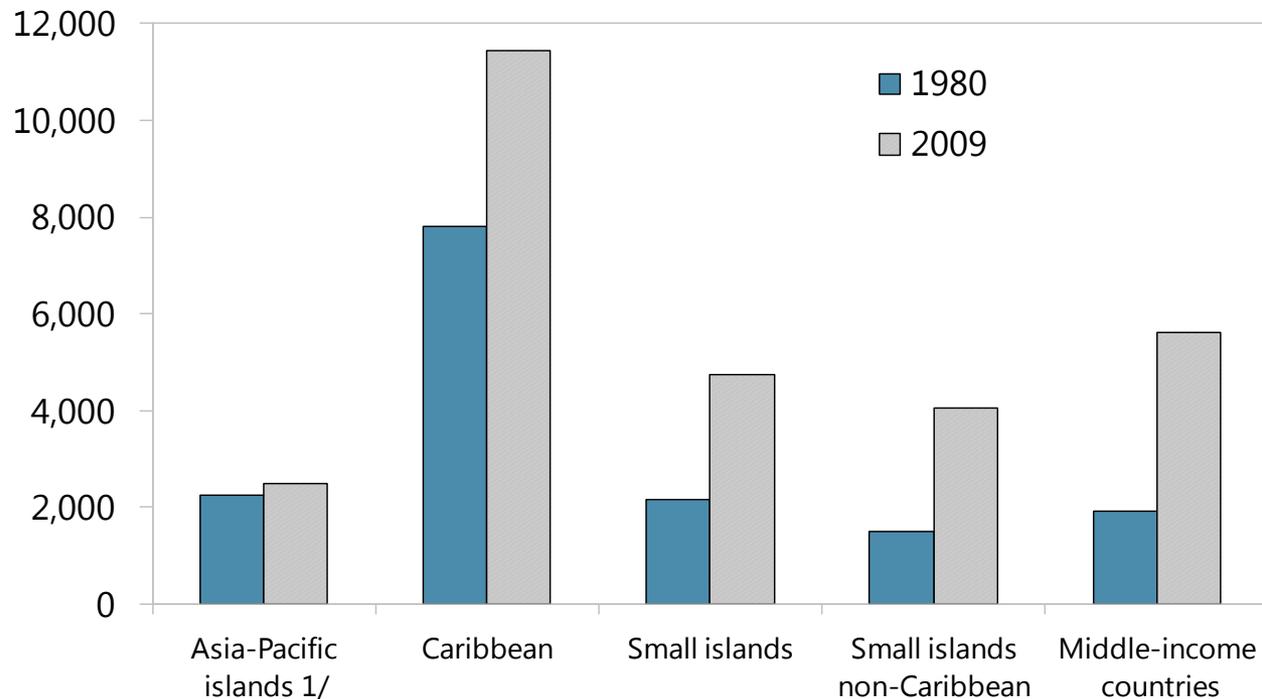
- Largest group of small states
- Constrained by relatively small size, most are service based, economies of scale difficult to achieve
- Output and/or exports rely heavily on one or two industries
- Susceptible to natural disasters

Per capita GDP (PPP basis) in the Caribbean is highest among peers.



Real per capita GDP PPP, weighted averages

(Constant 2005 US\$)



Sources: World Bank, *World Development Indicators*; IMF, *World Economic Outlook*; and IMF staff calculations.

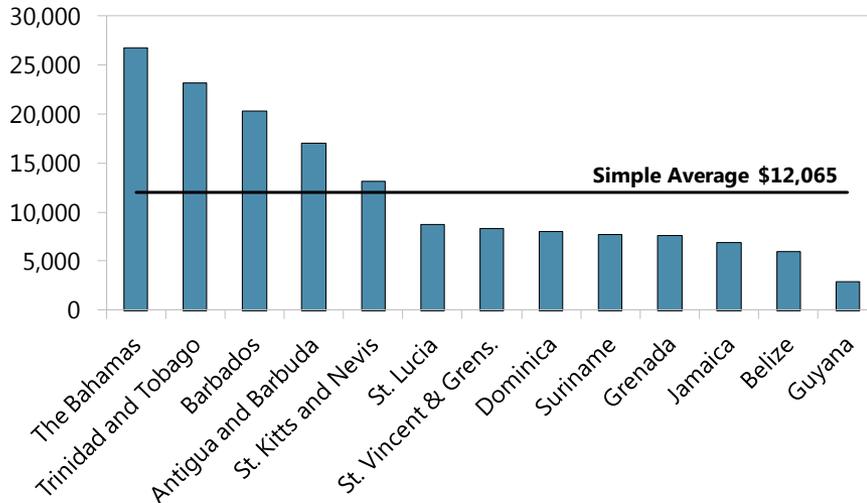
1/ The average in 1980 only includes Fiji, Kiribati, Maldives, Papua New Guinea, Solomon Islands, Tonga, and Vanuatu. The average in 2008 additionally included Micronesia, Fed. Sts., and Samoa.

However, there is significant variation among countries ...



Real per capita GDP PPP

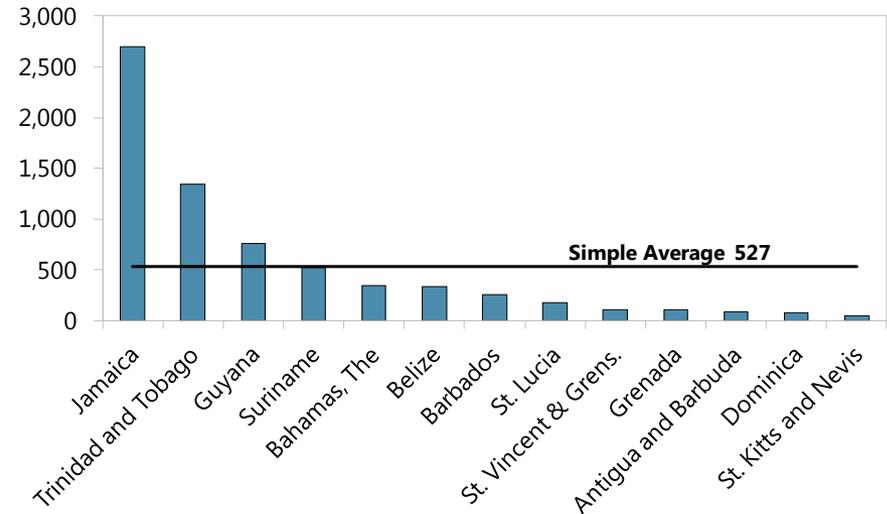
(Constant 2005 US\$)



Sources: World Bank, *World Development Indicators*; IMF, *World Economic Outlook*; and IMF staff calculations.

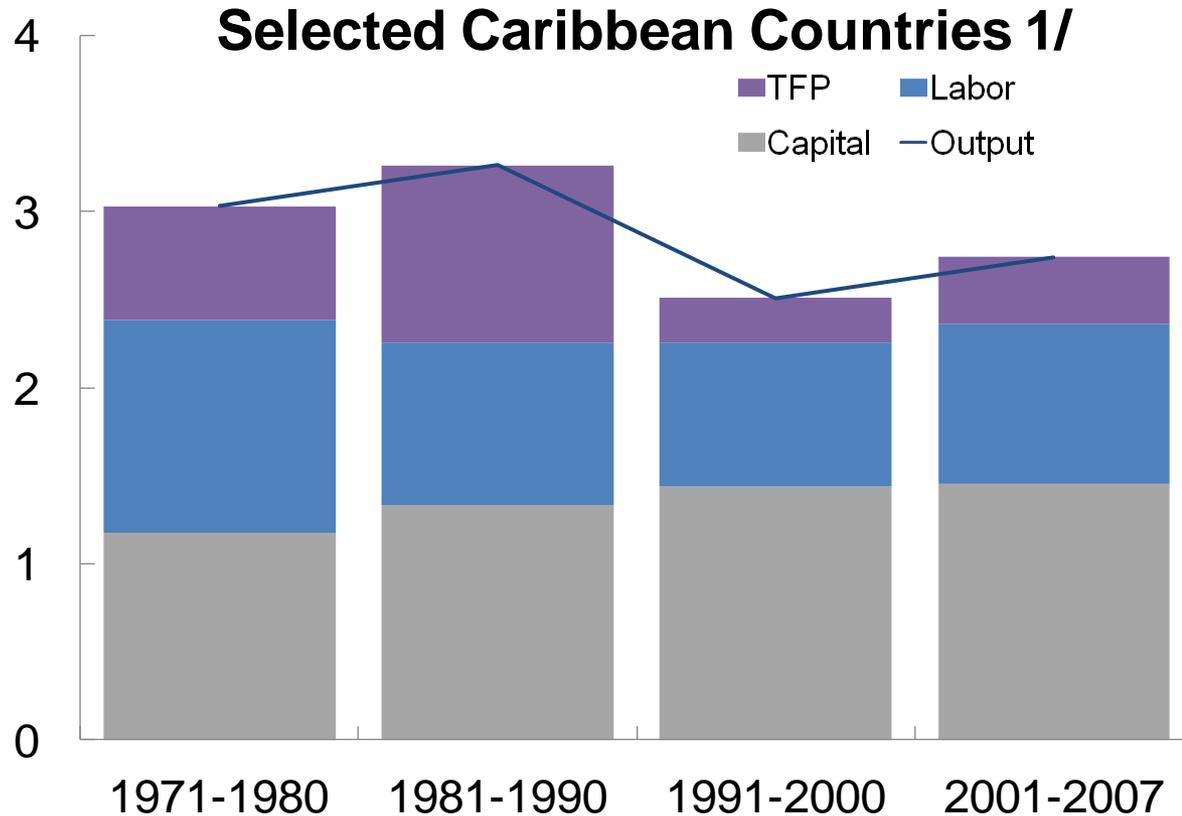
Population

(In thousands)



Sources: World Bank, *World Development Indicators*; and IMF staff calculations.

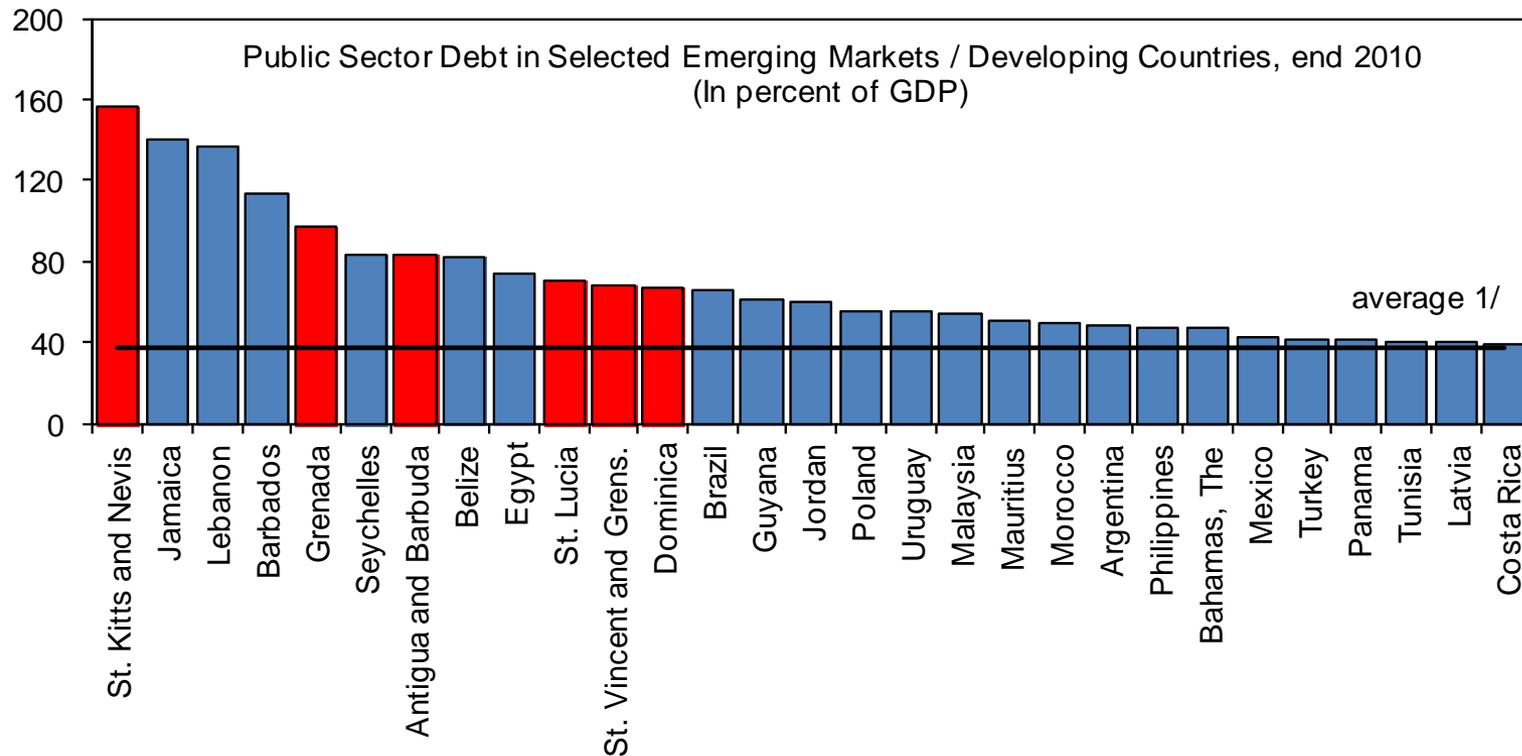
The decline in growth is driven by a decline in TFP



Sources: Heston, Summers and Aten (2009); and IMF staff calculations.

1/ Antigua and Barbuda, Dominica, Grenada, St. Kitts & Nevis, St. Lucia, St. Vincent & Grenadines, the Bahamas, Barbados, Belize, Guyana, Jamaica, and Suriname.

High public sector debt has also been a drag on growth



Sources: IMF, World Economic Outlook; and Fund staff calculations.
1/ Selected emerging and developing economies.

Broad based growth: What does this mean?



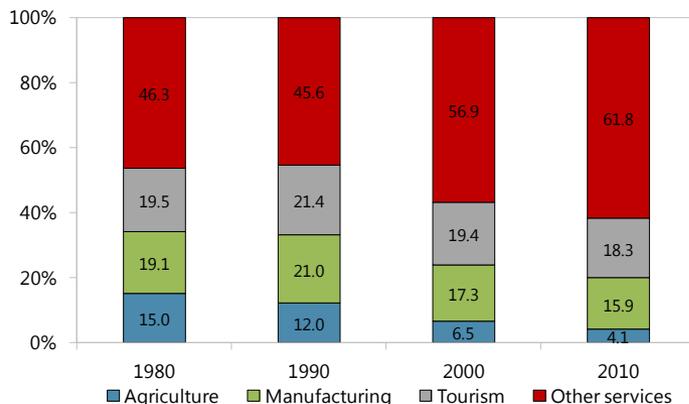
- More diversified production base and exports
- More diversified sources of external demand
- Improving the standard of living for everyone

Services has replaced agriculture as a major source of growth in the Caribbean



ECCU: Sectoral Real GDP

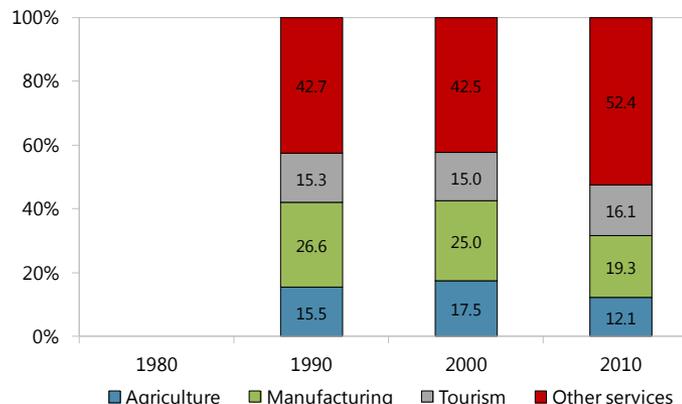
(In percent)



Sources: Country authorities; and IMF staff calculations.

Fiji: Sectoral Real GDP

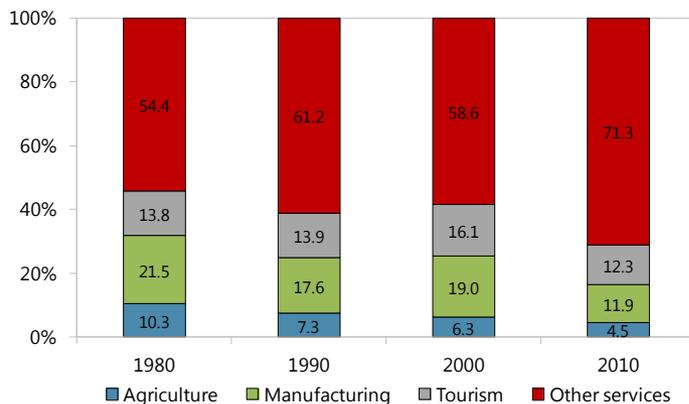
(In percent)



Sources: Country authorities; and IMF staff calculations.

Barbados: Sectoral Real GDP

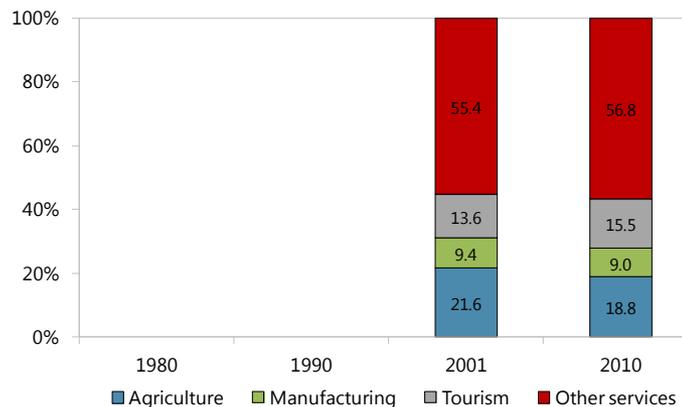
(In percent)



Sources: Country authorities; and IMF staff calculations.

Vanuatu: Sectoral Real GDP

(In percent)



Sources: Country authorities; and IMF staff calculations.

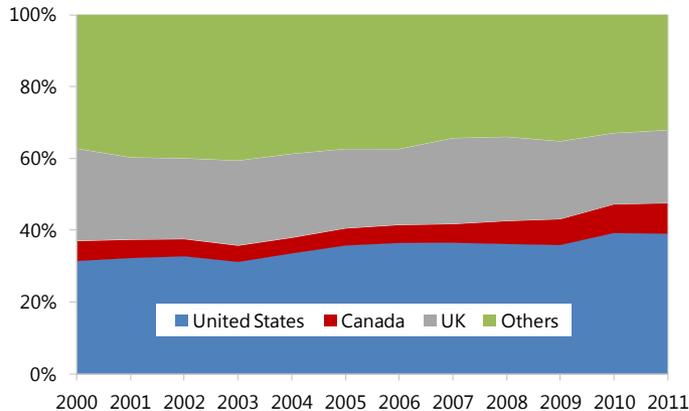
Note: Tourism include Hotels and Restaurants, half of Wholesale and retail trade, and half of Transport.

US and UK are primary sources of tourism



ECCU: Tourist Stay-over Arrivals by Source

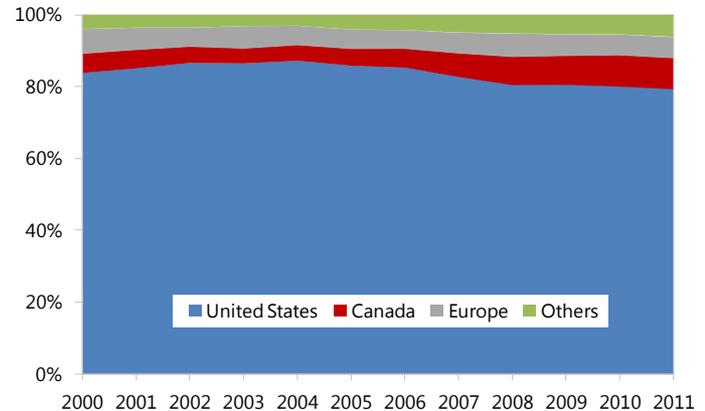
(In percent)



Sources: Eastern Caribbean Central Bank; and IMF staff calculations.

The Bahamas: Tourist Stay-over Arrivals by Source

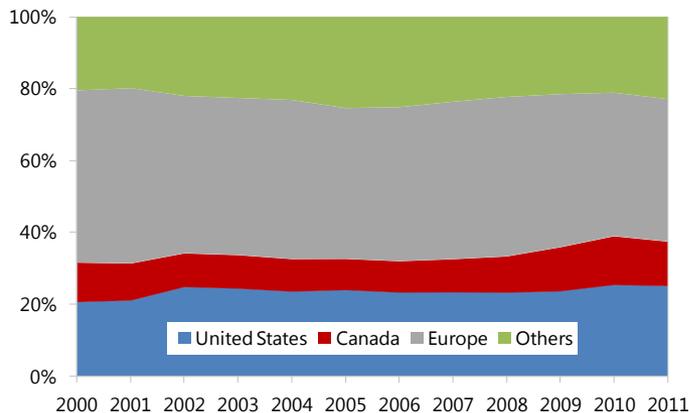
(In percent)



Sources: Caribbean Tourism Organization; and IMF staff calculations.

Barbados: Tourist Stay-over Arrivals by Source

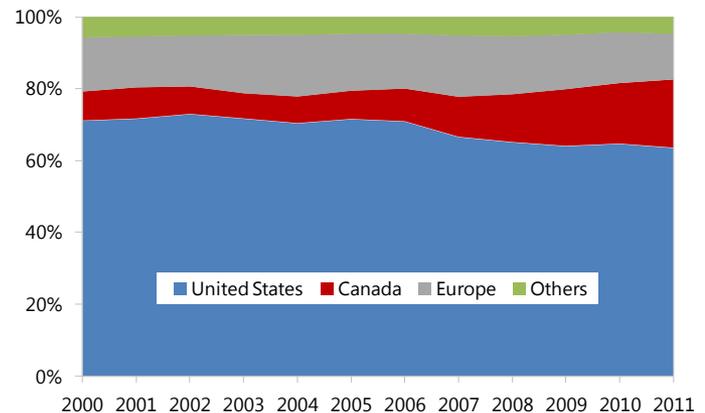
(In percent)



Sources: Caribbean Tourism Organization; and IMF staff calculations.

Jamaica: Tourist Stay-over Arrivals by Source

(In percent)



Sources: Caribbean Tourism Organization; and IMF staff calculations.

Human Development Index 2011



- 0-45: None
- 45-50: Barbados and Palau
- 50-75: Bahamas, Antigua and Barbuda, Trinidad and Tobago, Grenada, St. Kitts and Nevis
- 75-100: Jamaica, Dominica, St. Lucia, St. Vincent and the Grenadines, Tonga, Samoa, Fiji

But income inequality is a concern



Country	Year	Gini
Antigua and Barbuda	2006	0.48
Belize	2009	0.42
Dominica	2009	0.44
Grenada	2008	0.37
St. Kitts and Nevis	2008	0.40
St. Lucia	2006	0.42
St. Vincent and the Grenadines	2008	0.40
Trinidad and Tobago	2005	0.39
Maldives	2004	0.37
Micronesia, Fed.Sts.	2000	0.61
Seychelles	2007	0.19
Turkey	2008	0.40
Korea	2009	0.31
United States	2009	0.47

Sources: World Bank, *World Development Indicators* ;
various Country Poverty Assessment Reports; U.S. Census
Bureau; CIA World Factbook;and IMF staff calculations.

And unemployment is high in many countries



- Unemployment is high, especially in the ECCU countries (all in double digits)
- Your unemployment as high as 40 percent in some countries
- Significant underemployment despite government incentives to firms

What are the key challenges to broad based growth in small economies?

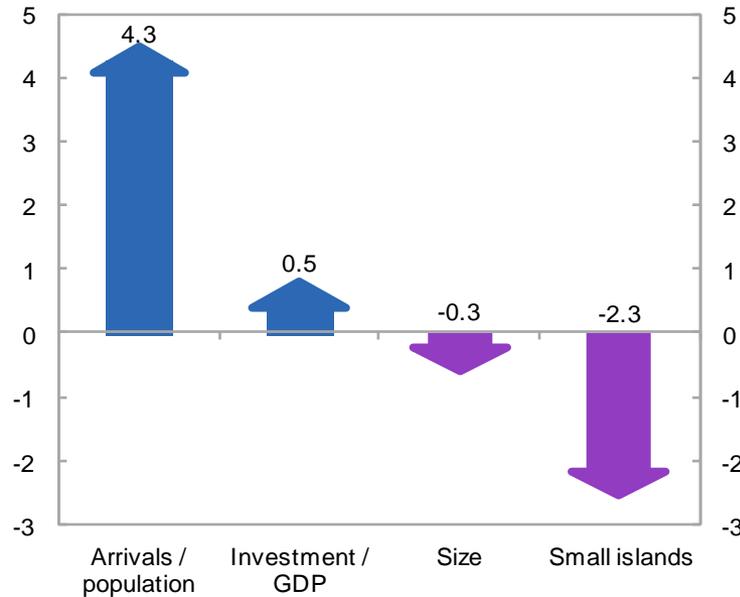


- Size of the domestic market
- Distance to external markets
- Lack of infrastructure (high energy and transportation costs, ports and customs)
- Access to credit (especially for SMEs and small farmers)
- Lack of skills (that fit the rapid changes in technology)

Tourism has a positive effect on growth that more than compensates for being a small island



**Caribbean: Factors Contributing to Growth vis-à-vis the World
(Percent)**



Government policies to overcome diseconomies of scale and generate growth



- Regional integration (OECS 8-point stabilization program and broader CARICOM Single Market Economy)
 - Harmonization of regulations
 - Reduction of barriers to the regional movement of labor
 - Liberalization of air transport services
 - Mutual recognition of technical and vocational certificates
- Gradual divestiture (TCL)
- Skill development (education revolution and distance learning programs)

Successful private sector initiatives in the Caribbean have focused on



- Targeting the regional market
- Partnering with international companies and organizations
- Expanding to higher-skill-intensive products

Some takeaways



- Tourism is main driver of growth
- Productivity is key to sustained growth
- High public debt is a drag on growth
- Government can play a key role (regional integration, infrastructure)
- Private sector is
- ultimate driver of growth)

Thank you!

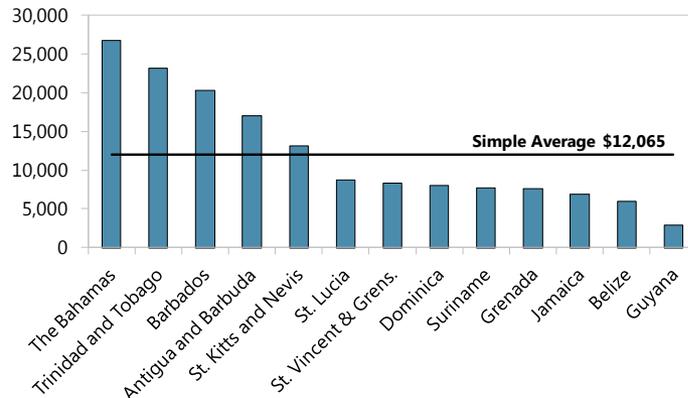


Comparison of Caribbean and Asia-Pacific Islands



Real per capita GDP PPP

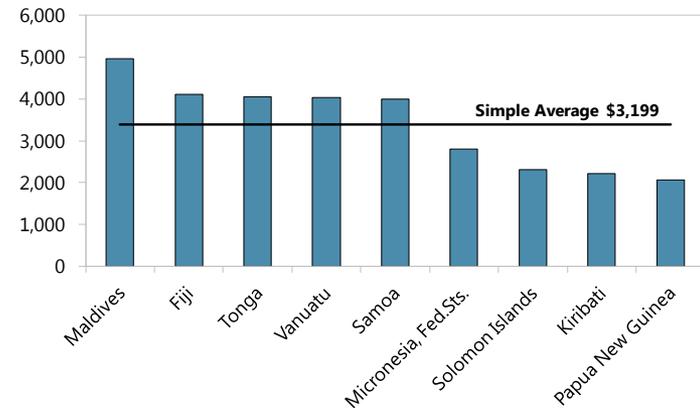
(Constant 2005 US\$)



Sources: World Bank, *World Development Indicators*; IMF, *World Economic Outlook*; and IMF staff calculations.

Real per capita GDP PPP

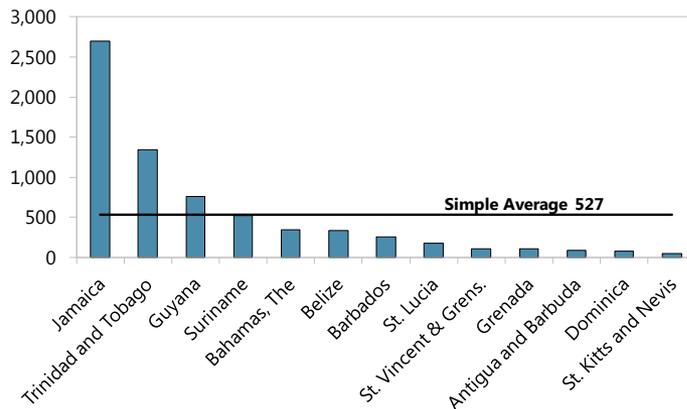
(Constant 2005 US\$)



Sources: World Bank, *World Development Indicators*; and IMF staff calculations.

Population

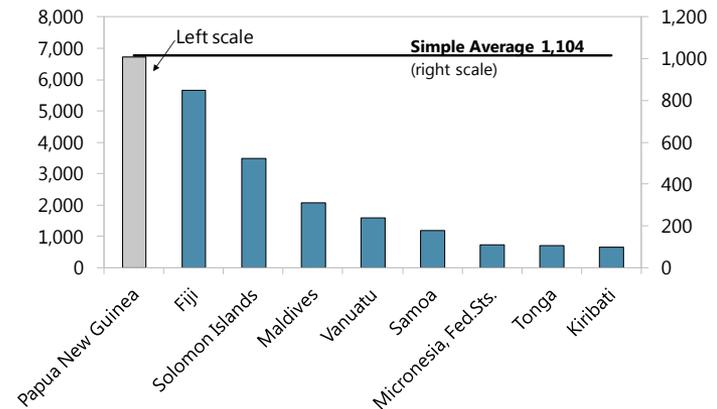
(In thousands)



Sources: World Bank, *World Development Indicators*; and IMF staff calculations.

Population

(In thousands)

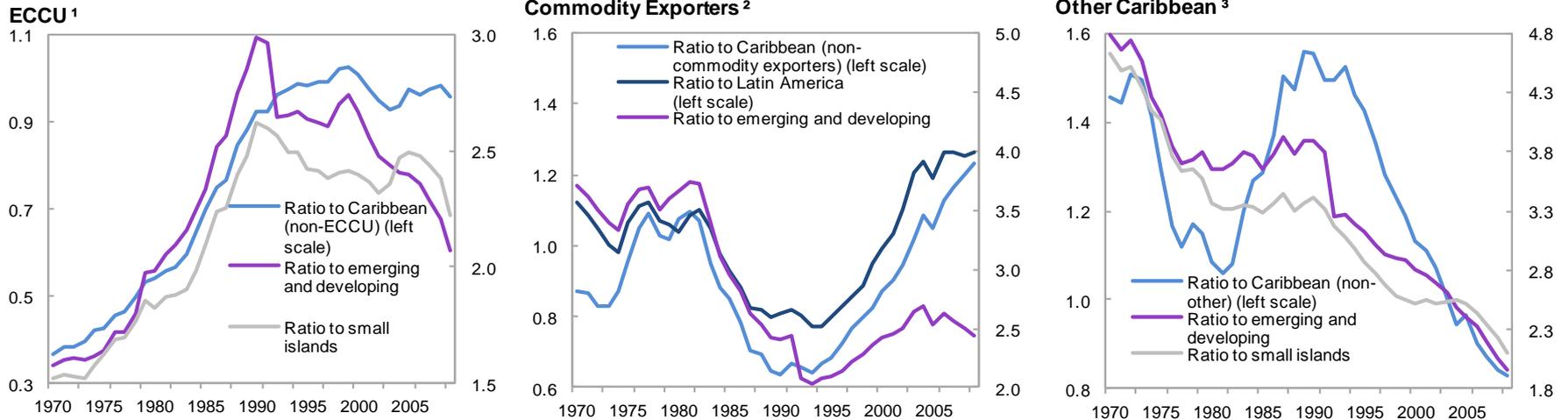


Sources: World Bank, *World Development Indicators*; and IMF staff calculations.

Most Caribbean countries are losing ground to their peers and to fast-growing emerging and developing countries.



Caribbean: Per capita GDP (PPP) Relative to Relevant Comparators, 1970–2009



Source: IMF staff calculations.

¹ Includes Antigua & Barbuda, Dominica, Grenada, St. Kitts & Nevis, St. Lucia, and St. Vincent & the Grenadines.

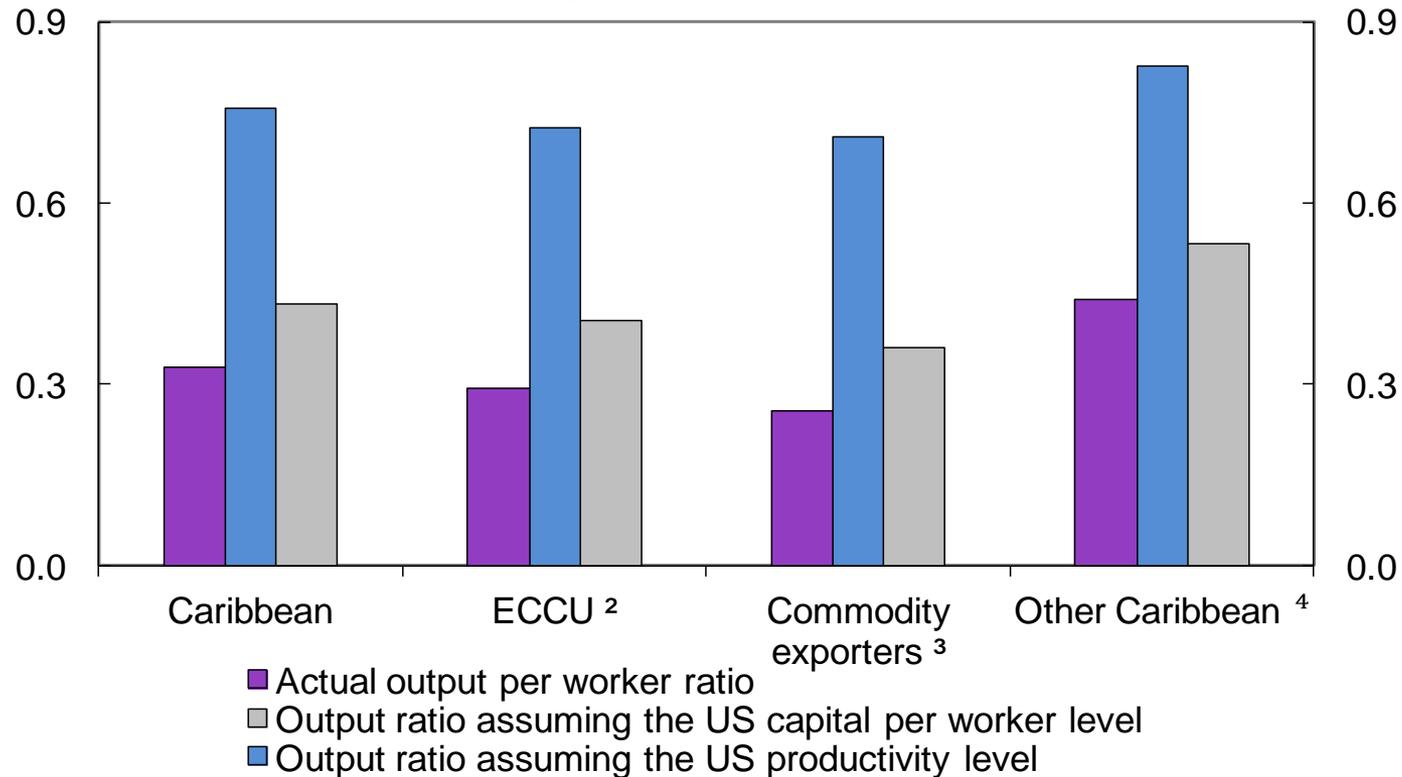
² Includes Guyana, Suriname, and Trinidad & Tobago.

³ Includes the Bahamas, Barbados, Belize, and Jamaica.

There is significant scope for boosting growth by raising productivity



Caribbean: Output per Worker and Its Components, 2001–2007 ¹ (Ratios to the United States)



Sources: Emergency Disaster Database (EM-DAT), CRED (2010); and Heston, Summers, and Aten (2009); IMF staff calculations.

¹ Data adjusted for the effect of hurricanes on capital.

² Antigua & Barbuda, Dominica, Grenada, St. Kitts & Nevis, St. Lucia, and St. Vincent & the Grenadines.

³ Guyana, Suriname, and Trinidad & Tobago.

⁴ The Bahamas, Barbados, Belize, and Jamaica.